

# **MINUTES**

## **North Dakota Public Employees Retirement System**

**Thursday, February 16, 2006  
ND Association of Counties, Bismarck  
BCBS, 4510 13<sup>th</sup> Ave SW, Fargo  
8:30 A.M.**

Members Present: Ms. Joan Ehrhardt  
Mr. Ron Leingang  
Mr. Howard Sage  
Ms. Arvy Smith  
Ms. Sandi Tabor

Via Video Conference: Chairman Jon Strinden

Members Absent: Ms. Rosey Sand

Others Present: Mr. Sparb Collins, Executive Director, NDPERS  
Ms. Cheryl Stockert, NDPERS  
Mr. Bryan Reinhardt, NDPERS  
Ms. Sharmain Dschaak, NDPERS  
Ms. Cheryle Masset-Martz, NDPERS  
Ms. Rebecca Fricke, NDPERS  
Ms. Pam Binder, NDPERS  
Mr. Scott Miller, Attorney General's Office  
Mr. David Peske, ND Medical Association  
Mr. Steve Cochrane, Retirement & Investment Office  
Mr. Michael Fix, ND Insurance Department  
Mr. Tom Tupa, AFPE/SEA  
Ms. Onalee Sellheim, BCBSND  
Mr. Josh Dozak, NDPEA  
Ms. Jodee Buhr, NDPEA  
Ms. Laurie Sterioti Hammeren, Human Res. Mgmt. Services  
Ms. Kelly Schmidt, ND State Treasurer  
Mr. Weldee Baetsch  
Mr. Paul Erlendson, Callan Associates, Inc.  
Mr. Tom Johnson, TIR  
Mr. Keith Johnson, Custer District Health

Via Conference Call: Ms. Lisa Clute, First District Health Unit  
Ms. Lana Fischer, Kidder County District Health Unit  
Ms. Julie Ferry, Nelson/Griggs District Health Unit  
Mr. Mike Melius, Upper Missouri District Health Unit

Ms. Wanda Kratochvil, Walsh County Health District  
Ms. Sharon Unruh, Central Valley Health Unit  
Ms. Robin Iszler, Central Valley Health Unit

Via Video Conference: Mr. Larry Brooks, BCBSND  
Mr. Kevin Schoenborn, BCBSND  
Mr. Tom Christensen, BCBSND  
Ms. Janine Weideman, BCBSND  
Ms. Kamie Kueneman, Prime Therapeutics  
Mr. Bill Robinson, Gallagher Benefit Services  
Mr. David Kaye, CO Dept. of Personnel & Adm.  
Ms. Vinita Biddle, CO Dept. of Personnel & Adm.

Chairman Jon Strinden called the meeting to order at 8:40 a.m.

### **MINUTES (Board Action Requested)**

Chairman Strinden called for any questions or comments regarding the minutes of the January 19, 2006 Board meeting.

**THERE BEING NONE, MR. LEINGANG MOVED APPROVAL OF THE JANUARY 19, 2006 BOARD MINUTES. MS. EHRHARDT SECONDED THE MOTION. THE MINUTES WERE APPROVED.**

### **GROUP INSURANCE**

#### **District Health Units**

Mr. Collins noted that at previous Board meetings, PERS began a process to review the classification of district health units in the state health plan. The issue is that district health units are treated by PERS as state agencies. They receive the state rate (flat rate) rather than the rate for political subdivisions. However, unlike state agencies they are not required to participate in the PERS health plan, but can make an election to do so. In addition, health districts are not treated as a state agency for purposes of the voluntary programs such as dental, vision, long term care, and the employee assistance program. It was noted they seem to operate more like a political subdivision not a state agency and the question becomes why we differentiate the rates for them. The only other entity that is not a state agency that receives the state rate is the Garrison Diversion Conservancy District, which according to counsel, is considered a political subdivision from a legal standpoint.

Mr. Collins stated that Mr. Keith Johnson, Administrator, Custer District Health Unit, was present to share information regarding this issue. Other representatives from the following health districts joined the Board meeting via conference call: First District

Health Unit, Minot; Kidder County District Health Unit, Steele; Nelson/Griggs District Health Unit, McVile; Upper Missouri District Health Unit, Williston; Walsh County Health District, Grafton; and Central Valley Health Unit, Jamestown.

Mr. Johnson stated this is a very critical issue for the district health units. Mr. Johnson referred the Board to his written testimony dated February 16, 2006. Mr. Johnson stated it is apparent to him that this request from staff to review their status from state agency to political subdivision results from an honest puzzlement as to why they should be treated differently than other political subdivisions in the state. He told the Board that if their classification was changed, the health districts costs would increase \$214,780. He indicated in his testimony that the Garrison Conservancy District and the Regional Court System are treated as state agencies for insurance purposes. Consequently, health districts should be treated as state agencies and be dealt with in the same manner. Ms. Tabor pointed out the fact that the District Courts became state agencies and employees. She was trying to determine what the correlation was between the county courts and the health districts and what Mr. Johnson was trying to suggest in his testimony.

Mr. Miller asked Mr. Johnson to explain his testimony regarding the legislature passing language that allowed the health districts into the health plan at state agency rates. Mr. Johnson responded there was no language giving the health units state agency rates; it was something PERS did.

Mr. Johnson closed his comments by saying that over the years their relationship with PERS has been mutually beneficial. They appreciate what PERS does for their personnel packages. It is what makes it possible for the health districts to hire high quality people. The salaries aren't always the best, but with the fringe benefits package, it swings potential employees to decide to come to work for the health districts. Mr. Johnson continued to review his written testimony with the Board which is available on file at PERS.

Ms. Smith questioned if we were referring not to just the district health units, but also county health departments as well. There is no clear reason as to who is treated one way or another regarding the state rate. Ms. Masset, PERS staff, explained the entire employer groups that are in the group health insurance were pulled from our database. Mr. Johnson stated that a district health unit is a separate entity formed by the member counties, that has a separate governing board and a separate funding source under Chapter 23-35 of the North Dakota Century Code. There are also health departments around the state that are a department of county government and would come under the county regulations.

Ms. Smith informed the Board that she was asked questions regarding this issue at the last interim Budget Committee on Health Care in December. Some of the members of that committee expressed great concern about this issue and the financial impact to public health and indicated this could become a legislative issue.

Ms. Tabor has two things she wants answers to regarding this issue for the April discussion. First question is, what is the Board's authority relating to setting rates and classifying entities into the rate structure? The second question is, if we have authorization, then what is the reason for allowing the exception? Ms. Tabor expressed concern if we grant one exception for this, why not another? Chairman Strinden indicated those were good questions and asked Sparb to have staff look into those items and report back to the April meeting.

Ms. Kratochvil from Walsh County Health District, Grafton, had a clarification/comment. In 2003 they changed their name from Walsh County Health Department to Walsh County Health District, specifically because of recommendations from PERS relating to the fact that they had become a health district and the name should reflect that.

Ms. Clute from First District Health Unit, Minot, reiterated the fact this is an important issue for the health districts. The financial impact would force them into decreasing health insurance benefits. There is no way they could absorb the additional costs. Ms. Clute was at the legislative committee meeting when they discussed this issue, and one of their suggestions was that PERS should consider not implementing any new policies before the next session.

Chairman Strinden thanked Mr. Johnson for the information provided to the Board and also the comments from representatives of the health districts. The Board will review this issue at the April meeting.

#### **Heart of America Medical Center, Rugby**

Mr. Collins stated the Heart of America Medical Center in Rugby is again seeking approval to offer its health plan to PERS membership in the Rugby service area.

**MS. TABOR MOVED TO ACCEPT THE HEART OF AMERICA MEDICAL CENTER IN RUGBY TO OFFER ITS HEALTH PLAN TO PERS MEMBERSHIP IN THE RUGBY AREA. MR. LEINGANG SECONDED THE MOTION.**

**Ayes:** Ehrhardt, Leingang, Sage, Tabor, and Chairman Strinden.

**Nays:** None

**Absent:** Sand, Smith

**PASSED**

#### **Prudential Group Contract**

Mr. Collins reported the contract has been reviewed and approved by the Attorney General's Office. Mr. Miller indicated that it took some effort to have Prudential agree to the provisions in the contract as required by the state.

**MS. TABOR MOVED TO ACCEPT THE APPROVED CONTRACT FOR SIGNATURE.  
MR. SAGE SECONDED THE MOTION.**

**Ayes:** Ehrhardt, Leingang, Sage, Smith, Tabor, and Chairman Strinden.

**Nays:** None

**Absent:** Sand

**PASSED**

**Quarterly Health Graphs**

Mr. Reinhardt referred the Board to the 2005 quarterly health graphs. He indicated that the trend line of total membership has gone up from \$165 to \$200. Keep in mind this an approximate 21% trend for the 2 years, about 10% annually. We need to be aware of this as we project for 2007-2009 plan year for health care. Mr. Reinhardt responded to a Board question regarding the large spike on the retired dependents list, which he indicated was likely the result of one large claim.

**RETIREMENT**

**Job Service Retirement Plan**

Mr. Collins reported to the Board that Mr. Paul Erlendson from Callan, and Mr. Tom Johnson from Timberland Investment Resources (TIR) were at the meeting to present information regarding the Job Service timber allocation, which is a follow-up from our last Board meeting. Mr. Paul Erlendson from Callan, an investment consultant to the State Investment Board (SIB), has reviewed the Job Service asset allocation and will provide comments to the Board.

Major points covered by Mr. Erlendson:

- This is a unique pension plan with no current contributions.
- JSND's plan is financially sound.
- The SIB investment structure employs strategies intended to minimize cost, control risk, and maximize return.
- A decision was to put 20% in large cap equity, 5% in small cap equity, 5% in international fund, and 55% in fixed income.
- The SIB took steps to enhance the fixed income program through the addition of timber.
- Industry best practices focuses on broad asset classes in the asset allocation process.
- An asset class is a group of investments that share common characteristics. They generally react similarly to economic factors (i.e. if interest rates go up, eventually the value of your bonds returns go down).

- Timber is much less sensitive to changing interest rates because timber is not as closely valued according to interest rates, it is also valued according to demand for wood products, fiber products, etc.
- JSND's fixed income structure uses active strategies in the context of a Total Return approach (i.e. appreciation plus income) to investing.
- Total Return relies on the fixed income portfolio to anchor the fund, with greater investment risks assumed in other asset classes.
- Timber offers a unique form of investment: its income is derived from harvesting a commodity; supply and demand conditions can dominate income and capital appreciation; investment returns defined by biological growth, timber prices and timberland appreciation; biological growth touted as a natural hedge to inflation; value added from manager's operational skill (harvesting and forest management).
- RMK and TIR, timber managers, both operate with different styles of management.
- There are elements of diversification by style of management functions.
- The properties themselves are diversified across six different states, in over 360 tracts.
- In total, there are 600 different "securities" in this portfolio as of December 21, 2005.

#### Conclusions for JSND:

- The strategies employed to implement manager structures to meet the needs of plans are changing and adapting rapidly. The use of timber within the SIB's fixed income structure, although unusual, fits within this trend.
- JSND's fixed income allocation contains a variety of both investment strategies and managers. The incremental diversity present at both the manager and investment strategy levels results in risk reduction.
- The two timber portfolios comprise over 360 individual tracts, roughly equivalent to a well diversified set of individual holdings in either an equity or a fixed income manager's portfolio.
- Given the requirements imposed by the JSND fund's benefit and funding policies, fixed income constitutes 55% of the fund's target asset allocation. As a consequence, timber equates to approximately 19% of fund assets. It is critically important that the timber portfolio produce cash flows that are equivalent to or higher than that which is available from bonds.
- The timber program is well diversified at the manager and asset levels. It provides beneficial diversification benefits. The projected cash flows must be monitored going forward to assure their adequacy to JSND's needs.

Mr. Collins indicated that Segal has reviewed our 8% return assumption and that we could potentially reduce that down to 6%, maybe even 5 ½ % at market value. If we have 55% currently in fixed income results in 19% timber, what happens if we go 100% fixed income and now we are 40% timber? Mr. Cochrane indicated we could create another bucket for fixed income exposure that Job Service could invest directly in to. An example would be within the insurance trust, as Workforce Safety ratcheted down their target exposure, they began to include asset types that we haven't strategically used such as

treasury inflation protected securities (TIPS). When we carved out a piece of that fund, it created a strategic exposure to TIPS. They are the only fund within the insurance trust which has about 15 participants that actually invest in those TIPS.

Mr. Erlendson stated the timber portfolio is a very well diversified portfolio, so there is no risk in the diversification within this portfolio. Inflation is the worst enemy of fixed income portfolios, because it decreases the value of assets. As you move forward and you make no significant changes in your assumptions, then the one thing you will want to do is monitor the cash flow that is coming off the timber portfolio.

Mr. Sage questioned the responsibility of the Board relating to the asset allocation of timberland and if the Board was liable if there was a failure. This is the concern of the Board. Mr. Erlendson responded that the trustees are trying to do what is in the best interest of the plan. You are gathering the best information you can to evaluate the alternatives. Many of these issues are far more complex and do not lend themselves to black and white kinds of answers, and you are exercising due diligence in your efforts.

Mr. Miller commented that the SIB invested in timber four years ago. PERS was involved with this portfolio as a result of legislation passed in the 2003 session effective either July or August 2003. Ms. Tabor commented we have done our due diligence. We need to continue to monitor this portfolio.

Major points of Mr. Johnson, Timberland Investment Resources:

- Biological growth, coupled with intensive management, drive timberland returns.
- Value is driven by biological growth and trees growing into higher value product classes (this is 40% of the return).
- Intensive management involves maximizing biological growth through improved planting and on the ground forest management.
- Land management is targeted planned use at the end of the investment term.
- Timberland values are driven by land use potential (higher and better use) such as residential communities, office, retail, and industrial sites, or retirement and second home tracts.
- Timber prices are influenced primarily by regional timber market dynamics.
- U.S. timber prices are derived by a number of sectors of the economy, many are interest rate sensitive such as new home sales, furniture sales, new offices and factories, packaged food and merchandise.
- Timber prices tend to revert to the norm over time, which corresponds to changes in inflation.
- Miscellaneous income includes hunting leases which can command high premiums.
- There are two types of risk that you are exposed to in timberland investments: one type of what is systematic risk. It's just by virtue that you are in that asset class you are exposed to it. One way to mitigate that risk is through diversification. As Mr.

Erlendson pointed out this portfolio is diversified. Also included in this risk category is biological risk such as fire, wind, and insects.

- Another type of risk is non-systematic risk which is manager specific. Managers you select will have different tools for measuring inventory, for forecasting, modeling the growth yield, harvesting which ultimately culminate the decision-making about how to manage that portfolio and cash flows.

Mr. Collins indicated that the Job Service Retirement Plan will be discussed at the next Board meeting. The Board will decide if any action is necessary based on the information presented.

The Constitutionality of Benefit Changes presentation will be presented at the January Board meeting.

### **DEFINED CONTRIBUTION**

The Board reviewed a report on the defined contribution plan. It was noted that a total of 5 new eligible employees transferred to the defined contribution plan in 2005.

### **MONTHLY TOPICS**

#### **HSA's**

Mr. Collins indicated that Mr. Bill Robinson from Gallagher Benefit Services was at the meeting and has arranged for the Board to hear information from the state of Colorado regarding consumer driven health plans such as high deductible health plans (HDHP's) and health spending accounts. Mr. Robinson stated Mr. David Kaye, Deputy Director of Human Resources for the State Department of Personnel Administration, and Ms. Vinita Biddle, Employee Benefits Supervisor, were available at the Board meeting to discuss the Colorado HDHP.

Mr. Kaye and Ms. Biddle appeared before the Board and explained various features of their HDHP and HSA in the state of Colorado. Major points included:

- Colorado introduced its qualified HDHP (PPO-H plan) with an HSA option effective July 1, 2005.
- The state does not contribute to the HSA and employees pay 100% of any fees associated with their accounts.
- Only PPO-H is a qualified HSA plan.
- Approximately 10% of enrollees selected the HDHP option without the State sponsored HSA.
- Approximately 3.3% enrolled in the HDHP with the HSA.



- The state does not know how many employees have opened HSA accounts on their own.
- In 2006 Colorado began self-funding all medical plans except for two localized HMO's.
- The Plan Design for the PPO-H qualified HSA plan includes:
  - PPO plan design.
  - \$1000/\$2000 in network and \$2000/\$4000 out of network deductibles.
  - Annual out of pocket maximums of \$5000/\$10000 in network and \$10000/\$20000 out of network.
  - Coinsurance of 85% in and 65% out of network (includes prescription drugs).
  - Preventative services subject to coinsurance but not deductibles.
- Plan pricing. PPO-H is not the lowest cost option for employees.

Ms. Biddle stated the employer contribution to the plans ranges about 63% across the board. The type of employee that elects the HDHP's versus the type of employee that elects your higher coverage plans is split about 50% each between single and family. Many of the employees at this first enrollment did not understand the concept of HSA so they believe there will be more during the next enrollment period. There are about 9,000 participating in the Kaiser plan and about 16,000 participating in the self-funded plan. Their medical plans have always included an employee contribution.

Major points covered by Mr. Bill Robinson regarding the state of Wyoming plan:

- Wyoming has offered an HDHP since 2005 with a \$2,500 deductible that is not HSA qualified.
- Prescription drugs are not subject to deductible and coinsurance in the \$2,500 HDHP.
- January 1, 2006 the state offered an HSA eligible \$1,500 deductible plan in addition to the existing non-qualified HDHP.
- Wyoming does not contribute to employee's HSA's or fund the account fees.
- Wyoming is a self-funded plan.
- Approximately 235 people out of 12,000 are enrolled in the HDHP in Wyoming.
- The Plan Design for the HDHP/HSA has the following characteristics:
  - Plan pricing. Employees do not contribute to either of the two HDHP's. Employees wanting a HDHP in 2006 for dependents must elect the HSA plan.
  - Employees electing either HDHP whose total costs are less than the State contribution can use the balance to offset the costs of other contributory coverages (but cannot receive the balance as cash or for contributions to an HSA).

### **BCBSND HDHP 2005-2007 Illustrative Rates**

Ms. Janine Weideman from BCBS developed an illustrative rate for a HDHP using a \$1,500 deductible, 80/20 coinsurance, \$2,500 coinsurance maximum, 2 per family, no copays, deductible applies to all services including prescription drugs. These deductibles would be times 2 for a family. There would be an approximate 15% premium savings when going with the HDHP. Highlight of the assumptions are that it assumes that employees do not have individual choice. Adverse selection risk is significant. This is a general overview of how this HDHP could be set up, which is subject to much change.

### **Retiree Health Insurance Credit Program (RHIC)**

Mr. Collins reported that at the planning meeting in October 2005, the Board requested further study of the RHIC program. Specifically, if you have two retired spouse state employees, they can presently apply for two single plans; however, the two spouses cannot combine their credits for a family plan. We are seeking Board action to determine if changes are needed to the existing statute and submitted during the 2007 legislative session. Mr. Dschaak reported that there are additional factors to be considered in combining RHIC's including: How should members receiving retirement benefits from a surviving spouse account and an individual account be treated; How should beneficiaries receiving retirement benefits from multiple surviving spouse accounts be treated; and How should participating spouses who elect optional forms of RHIC be treated. Possible changes may be required: business system enhancement; more in-depth member education; additional staff efforts; an actuarial impact as a result of more utilization of the RHIC funds; and an increased opportunity for overpayment of benefits. Mr. Collins asked the Board if this is something that should be considered for possible legislation.

**MS. SMITH MOVED TO INCLUDE ON THE LIST OF LEGISLATIVE CHANGES FOR THE 2007 SESSION A PROVISION TO ALLOW A PARTICIPATING RETIRED HUSBAND AND WIFE TO COMBINE HEALTH CREDIT TO PURCHASE A FAMILY PLAN. MR. SAGE SECONDED THE MOTION.**

Mr. Collins reported this item will be added to the legislative proposals list and agenda. At the next Board meeting, we will go through the proposed legislation list with the Board to determine the topics we need to prepare legislation for. This will be completed by April 1, 2006. The March meeting will be our last chance to put together items for legislation.

**Ayes:** Ehrhardt, Leingang, Sage, Smith, and Chairman Strinden.

**Nays:** None

**Absent:** Sand, Tabor

**PASSED**

### **New Board Member Orientation**

Mr. Collins indicated that Ms. Tabor, Ms. Sand, and he had developed new Board member orientation program. Since Ms. Tabor and Ms. Sand are not available at this time, this agenda item will be moved to the next Board meeting in March.

### **FLEXCOMP PROGRAM**

#### **Open Enrollment**

The flexcomp annual enrollment for the 2006 plan year concluded on November 15, 2005. Participation for 2006 in the dependent care account is 28 less than 2005. Total dollars pretaxed shows an 8.5% decrease over 2005. Participation in the medical spending account for 2006 is 47 less than in 2005. Total dollars pretaxed increased by approximately 1.6%.

Mr. Collins indicated that with the new PeopleSoft online system, employees will no longer be receiving a hard copy of their payments or quarterly reports. Our flexcomp program was included in the PeopleSoft system to enable participants to use the online system to track their balances. Later this summer flexcomp participants can go online and view their flex information. When the online system is implemented, PERS will discontinue mailing the quarterly statements and advice statements to participants.

### **MISCELLANEOUS**

#### **PERS Benefits Committee Legislative Proposals**

Mr. Collins indicated this issue will be discussed further at the March meeting.

#### **IT Request for Proposal**

Mr. Collins stated the information regarding the RFP has been provided to the Board. This issue will be included on the March agenda and we may conduct interviews of these firms in late March.

#### **Board Committees**

Mr. Collins suggested we could take action on the agenda item or wait until Ms. Sand and Ms. Tabor were present. Ms. Smith pointed out she is on the Wellness Committee.

**MR. SAGE MOVED WE ESTABLISH THE COMMITTEES AND INCLUDE MS. EHRHARDT ON THE BENEFITS COMMITTEE, WITH THE REMAINING BOARD MEMBER ASSIGNMENTS REMAINING AS ASSIGNED. MR. LEINGANG SECONDED THE MOTION.**

**Ayes:** Ehrhardt, Leingang, Sage, Smith, and Chairman Strinden.

**Nays:** None

**Absent:** Sand, Tabor

**PASSED**

Mr. Sage stated the NCPERS Conference is going to be held in May and he requested to attend this conference.

**MR. SAGE MOVED THE BOARD APPROVE TWO BOARD MEMBERS TO ATTEND THE NCPERS CONFERENCE IN MAY 2006. MS. SMITH SECONDED THE MOTION.**

**Ayes:** Ehrhardt, Leingang, Sage, Smith, and Chairman Strinden.

**Nays:** None

**Absent:** Sand, Tabor

**PASSED**

Ms. Smith requested information regarding HSA's, specifically those categories of PERS members that benefit, and what percentage of our membership would be included in that group. This will assist the Board in determining the benefit to a smaller group of participants versus a larger group.

The meeting adjourned at 11:40 a.m.

Prepared by,

Cheryl Stockert  
Secretary to the NDPERS Board